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UNCLAS SECTION 01 OF 02 KATHMANDU 000467

SIPDIS

SENSITIVE

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SUBJECT: NEPALI REACTION TO TRADE TREATY RENEWAL WITH INDIA

REF: 01 KATHMANDU 1675

SUMMARY

¶1. (SBU) Reaction in Kathmandu to the March 2 signing of the revised bilateral trade treaty between Nepal and India in New Delhi has been mixed. The revised treaty terms include value addition requirements on manufactured goods and imposed quota restrictions on four items that together account for about 25 percent of Nepal's exports to India. Government of Nepal (GON) officials, who had feared India would impose even more restrictive terms, are publicly billing the renewal a success. Reaction in the business community is varied, but most believe the deal their Commerce Secretary signed is likely the best that Nepal, with limited bargaining power and next-to-no leverage, could hope for. End summary.

HIGHER VALUE ADDITION REQUIREMENTS;
QUOTAS ON "SURGE" ITEMS

¶2. (SBU) Reaction in Kathmandu to the March 2 signing in New Delhi of the revised bilateral trade treaty between Nepal and India has been mixed. Government of Nepal (GON) officials are gamely--but not vociferously--claiming success. Sources in the business community are generally less sanguine, but largely believe that the deal their Commerce Secretary signed is likely the best Nepal could hope for.

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¶3. (U) Under the 1996 treaty, which came up for renewal in December, the value of Nepali exports to its largest trading partner increased by nearly seven times over the past five years. India now accounts for 43 percent of Nepal's total export market. Re-negotiation of the treaty terms, which offered duty-free, quota-free access to specified exports, has been hanging like a black cloud over Nepal's Trade Ministry and the local business community since August 14, when the Government of India first announced its intention to open the treaty for review (Reftel). India's concerns, according to Bhanu Prasad Acharya, Nepal's Trade Secretary, focused on two points: 1) the amount of value addition required for Nepali exports to qualify for duty-free, quota-free access; and 2) a purported "surge" in the volume of some exports.

¶4. (U) The revised terms impose a quota on Nepal's exports of four items (vegetable ghee, zinc oxide, copper wire, and acrylic yarn), which accounted for about 25 percent of Nepal's exports to India over the past year. In addition, Nepal's manufactured exports must meet a minimum standard of 25 percent value addition during the first year of the five-year treaty and 30 percent thereafter in order to qualify for duty-free access. The agreement also reportedly allows for the unilateral imposition of anti-dumping measures if either party's complaints of dumping are not address within 60 days of formal notice. The new terms take effect March 6.

GON CLAIMS MODEST SUCCESS

¶5. (SBU) According to Purushottam Ojha, Joint Secretary at Nepal's Ministry of Trade, only the GON's "hard bargaining" prevented India from pressing for even less generous terms. For example, Ojha said the Indians had originally pushed for 70 percent value addition. Besides haggling the value addition requirement down by more than half, Ojha said his Ministry also succeeded in persuading India to exempt a fifth export--steel pipes--from quota restrictions. He added the Indians were "adamant" about imposing some restrictions on the four items.

BUSINESS COMMUNITY SEES RED

¶6. (SBU) While the Trade Ministry may be trying to paint the new agreement as a modest triumph, reaction in the business community is more varied. Rajesh Kazi Shrestha, the President of the Nepal Chamber of Commerce, told us the revised terms killed the "spirit" of the 1996 treaty by giving India greater latitude in restricting exports. New provisions allowing the imposition of anti-dumping measures will leave Nepali industries at the mercy of India, he predicted. Arun Chaudhury, head of the Nepal-India Chamber of Commerce, on the other hand, said that Nepal must expand its industrial base and should not count on special favors from its trading partners to stay afloat. The world has changed since 1996, and Nepal must change with it, he said. Banwari Lal Mittal of the Nepal-USA Chamber of Commerce speculated that exporters of the four items now subject to quota restrictions might actually benefit from having fewer competitors in the market.

COMMENT

¶7. (SBU) Most Nepalis--including those at the Trade Ministry--realize the GON had few bargaining chips and next-to-no leverage going into the negotiations. The terms of the 1996 treaty were generous to Nepal, and a raft of businesses tailored to export products to India under those very conditions--including the lack of value added requirements--have sprung up in the intervening five years to take advantage of that generosity. But 2001 was not a good year for Nepali businesses for a number of reasons. The combined effects of September 11 and the Maoists insurgency have crippled tourism; the international airport recorded 42 percent fewer arrivals in November (the peak season) this year than last. Meanwhile, exports of garments to the U.S., Nepal's largest textile market, have declined by 20 percent. India may have taken these factors into account in granting, according to the Trade Ministry, less rigorous terms than originally contemplated. The observation that Nepal must expand its industrial base is just, but for Nepali businessmen struggling to get by, the message could not have come at a more difficult time.
MALINOWSKI